2018

AutoCanada

Management Discussion & Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2018

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1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of March 14, 2019, to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the year ended December 31, 2018, and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2018. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated. Reference to the notes are based on the Notes to the Consolidated Financial Statements of the Company, unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period and year ended December 31, 2018, of the Company, and compares these to the operating results of the Company for the three month period and year ended December 31, 2017.

This MD&A contains forward-looking statements. Please see the section "FORWARD-LOOKING STATEMENTS" for a discussion of the risks, uncertainties and assumptions used to develop our forward-looking information. This MD&A also makes reference to certain non-GAAP measures to assist users in assessing AutoCanada's performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "NON-GAAP MEASURES".

Additional information regarding our Company, including our 2018 Annual Information Form, dated March 14, 2019, is available on SEDAR at www.sedar.com and our website www.autocan.ca. Such additional information is not incorporated by reference herein, unless otherwise specified, and should not be deemed to be made part of this MD&A.

2. EXECUTIVE SUMMARY

Performance vs. the Fourth Quarter of Prior Year

The following table summarizes the Company's operations for the quarter as well as year to date results:

	Three Months Ended December 31			Year Ended December 31		
Consolidated Operational Data	**2018**	**2017**	**% Change**	**2018**	**2017**	**% Change**
EBITDA attributable to AutoCanada shareholders[1,2]	16,521	28,127	(41.3)%	56,262	111,812	(49.7)%
Adjusted EBITDA attributable to AutoCanada shareholders[1,2]	22,638	21,880	3.5%	69,266	95,410	(27.4)%
Net (loss) income attributable to AutoCanada shareholders[1]	(26,892)	17,089	(257.4)%	(78,083)	57,844	(235.0)%
Adjusted net earnings attributable to AutoCanada shareholders[1,2]	(9,299)	8,935	(204.1)%	1,175	42,665	(97.2)%
Basic EPS	(0.98)	0.62	(258.1)%	(2.85)	2.11	(235.1)%
Adjusted diluted EPS[2,3]	(0.34)	0.33	(203.0)%	0.04	1.55	(97.3)%
Weighted average number of shares - Basic	27,417,434	27,389,167	0.1%	27,399,117	27,379,193	0.1 %
Weighted average number of shares - Diluted[4]	27,417,434	27,498,724	(0.3)%	28,297,901	27,473,995	3.0 %
New retail vehicles sold (units)	9,214	8,444	9.1%	36,495	36,076	1.2 %
New fleet vehicles sold (units)	1,117	1,378	(18.9)%	6,956	7,697	(9.6)%
New vehicles sold (units)	10,331	9,822	5.2%	43,451	43,773	(0.7)%
Used retail vehicles sold (units)	5,693	4,653	22.4%	22,622	19,379	16.7 %
Total vehicles sold	16,024	14,475	10.7%	66,073	63,152	4.6 %
Revenue	782,790	733,060	6.8%	3,150,781	3,101,560	1.6 %
Gross profit	128,204	125,210	2.4%	507,963	518,629	(2.1)%
Gross profit %	16.4%	17.1%	(4.1)%	16.1%	16.7%	(3.6)%
Operating expenses	125,040	104,626	19.5%	474,804	426,253	11.4 %
Operating expenses % of gross profit	97.5%	83.6%	16.7%	93.5%	82.2%	13.7 %
Operating (loss) profit	(576)	26,505	(102.2)%	(32,648)	118,969	(127.4)%
Free cash flow[2]	(7,658)	29,496	(126.0)%	(28,805)	72,213	(139.9)%
Adjusted free cash flow[2]	10,553	15,996	(34.0)%	9,657	90,786	(89.4)%
Same store new retail vehicles sold (units)	6,106	6,806	(10.3)%	26,616	29,591	(10.1)%
Same store new fleet vehicles sold (units)	1,039	1,114	(6.7)%	6,663	6,322	5.4 %
Same store used retail vehicles sold (units)	4,020	3,682	9.2%	17,082	16,000	6.8 %
Same store total vehicles sold	11,165	11,602	(3.8)%	50,361	51,913	(3.0)%
Same store revenue	562,001	579,610	(3.0)%	2,461,285	2,510,170	(1.9)%
Same store gross profit	95,558	98,534	(3.0)%	407,170	422,692	(3.7)%
Same store gross profit %	17.0%	17.0%	0.0%	16.5%	16.8%	(1.8)%

1 *Represents the portion attributable to AutoCanada Shareholders.*
2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*
3 *Adjusted diluted EPS is calculated using the Weighted average number of shares - Diluted figure as presented in Section 7 "Results of Operations".*
4 *For the three months ended December 31, 2018, Weighted average number of shares - Diluted, is presented as the same figure as Basic due to an anti-dilutive impact in the quarter.*

2018 Full Year Highlights

- Revenue was $3,150.8 million, up 1.6% compared with 2017. However, operating expenses were also up by 11.4% when compared to 2017. This resulted in relatively poor performance in 2018. A large contributor to this was the acquisition of our U.S. Operations in April 2018 as operating expenses in the U.S. Operations exceeded gross profit by $10.3 million.
- Also, included in operating expenses are management transition costs of $9.8 million, a number of non-recurring expenses such as inventory adjustments, a provision of $2.0 million related to fraud at one our dealerships in the second quarter, allowances and writedowns of $3.2 million related to the winding down of operations, and costs associated with implementing our Go Forward Plan. Operating expenses as a percentage of gross profit were up to 93.5% from 82.2% in 2017.
- Gross profit was $508.0 million, down 2.1% compared with 2017, with gross profit as a percentage of revenue decreasing to 16.1% from 16.7%. Same store gross profit declined 3.7% over the same period.
- New vehicle sales were 43,451, down 0.7% from 2017. Revenue from the sale of new vehicles was $1,802.2 million, down 1.4% from 2017. The sale of new vehicles accounted for 57.2% of the Company's total revenue and 21.5% of gross profit versus 58.9% of revenue and 25.3% of gross profit in 2017.
- Used vehicle sales were 22,622, up 16.7% from last year. Revenue from the sale of used vehicles was $756.2 million, up 5.6% from the prior year. The sale of used vehicles accounted for 24.0% of the Company's total revenue and 8.5% of gross profit, versus 23.1% of revenue and 8.4% of gross profit in 2017.
- Parts, service and collision repair generated $451.8 million of revenue, up 8.4% from 2017. This accounted for 14.3% of the Company's total revenue and 44.1% of its gross profit, up from 13.4% of revenue and 41.3% of gross profit in 2017.
- Finance and insurance generated $140.7 million of revenue, a decrease of 0.4% from 2017. This accounted for 4.5% of the Company's total revenue and 25.9% of its gross profit, in line with 4.6% of revenue and an increase from 25.0% of gross profit in 2017.
- EBITDA attributable to AutoCanada shareholders decreased to $56.3 million from $111.8 million in the prior year.
- Including the impairment of non-financial assets, the Company generated a net loss attributable to AutoCanada shareholders of $(78.1) million (Adjusted net earnings attributable to AutoCanada shareholders of $1.2 million), or $(2.85) per share (Adjusted net earnings per share attributable to AutoCanada shareholders $0.04) versus net income of $57.8 million in 2017 ($42.7 million on an adjusted basis) or $2.11 per share ($1.56 on an adjusted basis).
- Included in EBITDA and net earnings are gains totaling $13.9 million from sale-leaseback transactions of dealership properties.
- Total impairment charges attributable to AutoCanada shareholders were $95.1 million, or $2.55 basic earnings per share net of tax.

Fourth Quarter Highlights

- Revenue was $782.8 million, up 6.8% compared with the fourth quarter of 2017.
- Operating expenses were $125.0 million, up 19.5% from the same period last year. Operating expenses as a percentage of gross profit were up to 97.5% from 83.6% in the same period in 2017.
- Operating expenses in the U.S. Operations exceeded gross profit by $6.3 million. Included in the U.S. operating expenses is management transition costs of approximately $2.0 million. In addition, the Canadian operating expenses include approximately $3.7 million of non-recurring allowances and provisions.
- Gross profit was $128.2 million, up 2.4% compared with the same quarter in 2017, with gross profit as a percentage of revenue decreasing to 16.4% from 17.1%. Same store gross profit declined 3.0%.
- New vehicle sales were 10,331, up 5.2% from the same period in 2017. Revenue from the sale of new vehicles was $432.8 million, up 3.6% from the same period in 2017. The sale of new vehicles accounted for 55.3% of the Company's total revenue and 20.2% of gross profit versus 57.0% of revenue and 24.0% of gross profit in the fourth quarter of 2017.
- Used vehicle sales were 5,693, up 22.4% compared with the same quarter last year. Revenue from the sale of used vehicles was $193.0 million, up 10.1% from the same quarter last year. The sale of used vehicles accounted for 24.7% of the Company's total revenue and 6.7% of gross profit, versus 23.9% of revenue and 6.0% of gross profit in the fourth quarter of 2017.
- Parts, service and collision repair generated $121.3 million of revenue, up 13.2% from the same period in 2017. This accounted for 15.5% of the Company's total revenue and 47.1% of its gross profit, up from 14.6% of revenue and 45.5% of gross profit in the same quarter of 2017.
- Finance and insurance generated $35.7 million of revenue, an increase of 8.2% from the same period in 2017. This accounted for 4.6% of the Company's total revenue and 26.0% of its gross profit, in line with 4.5% of revenue and up from 24.5% of gross profit in the fourth quarter of 2017.

- EBITDA attributable to AutoCanada shareholders decreased to $16.5 million from $28.1 million compared with the same quarter last year.
- Adjusted EBITDA attributable to AutoCanada shareholders increased to $22.6 million from $21.9 million compared with the same quarter last year.
- Including the impairment of non-financial assets, the Company generated a net loss attributable to AutoCanada shareholders of $(26.9) million (Adjusted net earnings attributable to AutoCanada shareholders of $(9.3) million), or $(0.98) per share (Adjusted net earnings per share attributable to AutoCanada shareholders $(0.34)) versus net income of $17.1 million in 2017 ($8.9 million on an adjusted basis) or $0.62 per share ($0.33 on an adjusted basis).
- Included in EBITDA and net earnings is a gain of $9.2 million from a sale-leaseback transaction in respect of four dealership properties.
- Total impairment charges were $17.8 million in the fourth quarter, or $0.48 basic earnings per share net of tax. The impairment charges in the fourth quarter were attributable to our U.S. Operations.

3. OUTLOOK

Macroeconomic factors create a degree of uncertainty for AutoCanada's business. Central banks in Canada and the United States have recently raised key interest rates, and there is a possibility of further interest rate hikes over the next year. Higher rates will adversely impact borrowing expenses on variable interest rate debt such as vehicle floorplan financing, which would increase our costs. Monthly loan payments for new and used vehicles are also typically linked to market interest rates, meaning rising interest rates will likely make vehicle ownership less affordable at the same time as other household debt becomes more expensive.

The auto industry in North America is coming off several record-setting years and the sale of new vehicles is beginning to trend downwards. While many analysts expect sales to remain healthy, most expect a decline in volume in 2019. Over the last few months there has been greater concern over the strength of the economy in both Canada and the United States. If these concerns materialize, the volume of vehicle sales could decrease more than analysts expect. New car sales in the U.S. dropped more than expected in January and February and many dealers in the U.S. are reacting by shifting to used cars and cutting costs. Some of the blame for the reduction of new car sales over these two months is being placed on the severe weather in the Midwest and the heavy rains in the Southeast and California. Vehicle leasing and manufacturer incentives remain at high levels, particularly as the new model year rolls out. If those incentives are scaled back, it could impact sales volumes.

While macro-economic factors determine total vehicle demand, we expect to deliver materially better results in our Canadian operations as we continue to implement our Go Forward Plan, even if the broader industry faces varying headwinds. This will come through a combination of focusing on less cyclical parts of our business and on lines of our business that generate higher margins. As part of our Go Forward Plan, we expect to materially increase the number of used vehicles we retail. Margins on used vehicles tend to be higher than new vehicles and retailing more vehicles will increase our returns from our finance and insurance and our parts and service lines of business. In addition, we are implementing a number of initiatives to increase the returns from our parts, service and collision businesses.

We are also optimizing our finance and insurance offerings for used vehicles at our dealerships. We expect to earn a material profit share on these new offerings. We have also created a new special finance division and a new wholesale division. Our new special finance division will arrange loans for customers who cannot qualify for traditional loans offered by banks and affiliates of vehicle manufacturers. We expect that our special finance division will increase both new and used vehicle sales at our dealerships and through a recently launched online site (www.rightride.ca). We expect that our new wholesale division will be accretive by taking advantage of the arbitrage opportunities with the sale of used vehicles in different geographical locations. Other aspects of the Company's Go Forward Plan are expected to lead to a decrease in operational expenses at our dealerships and at our collision centres as we better leverage our buying power to achieve meaningful cost reductions in our Canadian operations.

The key issue with our U.S. Operations in 2018 was the high cost structure. We are taking steps to reduce the operating expenses in our U.S. dealerships to be in line with industry norms with a view to bringing our U.S. operations to profitability in 2019. In addition, we are implementing a plan to create operational efficiencies and grow revenues with a view of creating a sustainable platform with the U.S. assets that we currently own that can withstand the economic climate over the next few years.

The fragmented nature of the automotive dealership sector will provide us with the opportunity to diversify our geographical presence and drive earnings growth through accretive acquisitions. While our principal focus at this time is on executing our Go Forward plan and optimizing all of our lines of business, we expect to grow our business by making accretive acquisitions as opportunities may arise.

4. MARKET

The Company's geographical profile is illustrated below by number of dealerships and revenues and gross profit by Province and State for the years ended December 31, 2018 and December 31, 2017.

	December 31, 2018					
Location of Dealerships	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Gross Profit**	**Gross Profit % of Total**
British Columbia	12	10	512,423	16%	79,852	16%
Alberta	24	21	926,317	29%	168,320	33%
Saskatchewan	4	4	238,691	8%	41,838	8%
Manitoba	4	4	198,908	6%	35,505	7%
Ontario	10	9	303,920	10%	45,280	9%
Quebec	6	4	481,020	15%	72,754	14%
Atlantic	2	2	117,541	4%	15,556	3%
Illinois	15	14	371,961	12%	48,858	10%
Total	77	68	3,150,781	100%	507,963	100%

1 *"Dealerships" refers to each physical storefront; while "Franchises" refers to each separate franchise agreement.*

	December 31, 2017					
Location of Dealerships	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Gross Profit**	**Gross Profit % of Total**
British Columbia	13	11	590,528	19%	95,269	18%
Alberta	28	25	1,224,178	39%	219,738	42%
Saskatchewan	4	4	243,321	8%	45,146	9%
Manitoba	4	4	194,888	6%	35,145	7%
Ontario	9	8	281,562	9%	44,764	9%
Quebec	6	4	420,969	14%	57,955	11%
Atlantic	2	2	146,114	5%	20,612	4%
Total	66	58	3,101,560	100%	518,629	100%

1 *"Dealerships" refers to each physical storefront; while "Franchises" refers to each separate franchise agreement.*

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the years ended December 31, 2018 and December 31, 2017.

	December 31, 2018				December 31, 2017			
Manufacturer	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**
FCA	23	17	1,227,070	39%	23	17	1,246,120	40%
General Motors	8	7	330,180	10%	9	9	653,618	21%
Hyundai	11	11	309,414	10%	9	9	240,843	8%
Nissan / Infiniti	7	7	231,612	7%	7	7	234,824	8%
Volkswagen / Audi	8	8	270,236	9%	8	8	256,063	8%
BMW / MINI	4	2	347,435	11%	4	2	352,631	11%
Other	16	16	434,834	14%	6	6	117,461	4%
Total	77	68	3,150,781	100%	66	58	3,101,560	100%

1 *"Dealerships" refers to each physical storefront; while "Franchises" refers to each separate franchise agreement.*

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector for the year has decreased by 2.6% compared to the prior year. Larger declines were seen in Alberta and British Columbia where new vehicle sales for the year ended December 31, 2018 were down 5.6%. In 2018, 45.7% (in 2017 - 58.5%) of the Company's revenues were concentrated in Alberta and British Columbia.

Canadian New Vehicle Sales by Province [1,2]

	2018	2017	Percent Change	Unit Change
British Columbia	220,595	233,615	(5.6)%	(13,020)
Alberta	230,716	244,302	(5.6)%	(13,586)
Saskatchewan	49,317	55,260	(10.8)%	(5,943)
Manitoba	65,921	61,661	6.9%	4,260
Ontario	837,216	837,480	0.0%	(264)
Quebec	450,966	462,087	(2.4)%	(11,121)
Atlantic	130,261	144,393	(9.8)%	(14,132)
Total	1,984,992	2,038,798	(2.6)%	(53,806)

1 *DesRosiers Automotive Consultants Inc.*
2 *Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.*

Canadian New Vehicle Sales by Brand [1,2]

	2018	2017	Percent Change	Unit Change
Audi	36,908	36,007	2.5%	901
BMW	39,033	38,562	1.2%	471
FCA	224,889	267,052	(15.8)%	(42,163)
Ford	297,902	308,474	(3.4)%	(10,572)
General Motors	288,310	302,826	(4.8)%	(14,516)
Hyundai	127,839	129,348	(1.2)%	(1,509)
Infiniti	12,581	12,433	1.2%	148
Mazda	73,869	74,056	(0.3)%	(187)
Mercedes-Benz	49,413	51,930	(4.8)%	(2,517)
MINI	6,945	7,051	(1.5)%	(106)
Mitsubishi	25,237	22,706	11.1%	2,531
Nissan	136,536	134,244	1.7%	2,292
Subaru	58,070	54,570	6.4%	3,500
Volkswagen	72,210	69,634	3.7%	2,576
Total – AutoCanada Brands	1,449,742	1,508,893	(3.9)%	(59,151)
Other – Non-AutoCanada Brands[3]	535,250	529,905	1.0%	5,345
Total	1,984,992	2,038,798	(2.6)%	(53,806)

1 *DesRosiers Automotive Consultants Inc.*
2 *Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.*
3 *The Company owns Honda, Kia, Lincoln, Toyota, and Volvo in the U.S. that are included in the Non-AutoCanada Brands.*

List of Dealerships

The following table sets forth the dealerships that we currently own and operate and the date opened or acquired by the Company or its predecessors, organized by location.

Location	Operating Name	Franchise	Year Opened or Acquired	Same Store[1]	Owned or Leased[2]
Wholly-Owned Dealerships:					
Abbotsford, BC	Abbotsford Volkswagen	Volkswagen	2011	Y	Leased
Chilliwack, BC	Chilliwack Volkswagen	Volkswagen	2011	Y	Leased
Kelowna, BC	Okanagan Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Maple Ridge, BC	Maple Ridge Chrysler Jeep Dodge FIAT ALFA ROMEO	FCA	2005	Y	Leased
Maple Ridge, BC	Maple Ridge Volkswagen	Volkswagen	2008	Y	Leased
Prince George, BC	Northland Chrysler Jeep Dodge	FCA	2002	Y	Owned
Prince George, BC	Northland Hyundai	Hyundai	2005	Y	Owned
Prince George, BC	Northland Nissan	Nissan	2007	Y	Owned
Victoria, BC	Victoria Hyundai	Hyundai	2006	Y	Owned
Airdrie, AB	Airdrie Chrysler Jeep Dodge Ram	FCA	2015	Y	Leased
Calgary, AB	Courtesy Chrysler Dodge	FCA	2013	Y	Leased
Calgary, AB	Calgary Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Crowfoot Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Northland Volkswagen	Volkswagen	2014	Y	Leased
Calgary, AB	Fish Creek Nissan	Nissan	2014	Y	Leased
Calgary, AB	Hyatt Infiniti	Infiniti	2014	Y	Leased
Calgary, AB	Tower Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Edmonton, AB	Crosstown Chrysler Jeep Dodge FIAT	FCA	1994	Y	Leased
Edmonton, AB	Capital Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Edmonton, AB	Mercedes-Benz Heritage Valley[5]	Mercedes-Benz	2018	Q1 2021	Leased
Grande Prairie, AB	Grande Prairie Chrysler Jeep Dodge FIAT	FCA	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Hyundai	Hyundai	2005	Y	Owned
Grande Prairie, AB	Grande Prairie Subaru	Subaru	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Mitsubishi	Mitsubishi	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Nissan	Nissan	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Volkswagen	Volkswagen	2013	Y	Owned
Ponoka, AB	Ponoka Chrysler Jeep Dodge	FCA	1998	Y	Owned
Sherwood Park, AB	Sherwood Park Hyundai	Hyundai	2006	Y	Owned
Sherwood Park, AB	Sherwood Park Volkswagen	Volkswagen	2017	Q2 2019	Leased
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Y	Leased
Saskatoon, SK	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Winnipeg, MB	Audi Winnipeg	Audi	2013	Y	Leased
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Owned
Winnipeg, MB	Eastern Chrysler Jeep Dodge	FCA	2014	Y	Owned
Cambridge, ON	Cambridge Hyundai	Hyundai	2008	Y	Owned
Mississauga, ON	401 Dixie Hyundai	Hyundai	2008	Y	Leased
Guelph, ON	Guelph Hyundai	Hyundai	2016	Q1 2019	Owned
Guelph, ON	Wellington Motors	FCA	2016	Q1 2019	Owned
Ottawa, ON	Hunt Club Nissan	Nissan	2015	Y	Leased
Ottawa, ON	417 Nissan	Nissan	2015	Y	Leased
Ottawa, ON	417 Infiniti	Infiniti	2015	Y	Leased
Toronto, ON	Toronto Chrysler Jeep Dodge Ram[7]	FCA	2014	Y	Leased
Windsor, ON	Rose City Ford[6]	Ford	2018	Q1 2021	Leased
Montreal, QB	Mercedes-Benz Rive-Sud	Mercedes-Benz	2017	Q3 2019	Leased

Location	Operating Name	Franchise	Year Opened or Acquired	Same Store[1]	Owned or Leased[2]
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned
Dartmouth, NS	Dartmouth Chrysler Jeep Dodge	FCA	2006	Y	Leased
Chicago, IL	Grossinger City Cadillac[4]	General Motors	2018	Q3 2020	Leased
Chicago, IL	Grossinger City Chevrolet[4]	General Motors	2018	Q3 2020	Leased
Chicago, IL	Grossinger City Toyota[4]	Toyota	2018	Q3 2020	Leased
Chicago, IL	North City Honda[4]	Honda	2018	Q3 2020	Leased
Lincolnwood, IL	Grossinger Hyundai North[4]	Hyundai	2018	Q3 2020	Leased
Lincolnwood, IL	Grossinger Kia[4]	Kia	2018	Q3 2020	Leased
Lincolnwood, IL	Grossinger Toyota North[4]	Toyota	2018	Q3 2020	Leased
Bloomington/Normal, IL	Grossinger Motors[3,4]	Various	2018	Q3 2020	Leased
Palatine, IL	Grossinger Hyundai Palatine[4]	Hyundai	2018	Q3 2020	Leased
Palatine, IL	Grossinger Palatine Chevrolet[4]	General Motors	2018	Q3 2020	Leased
Majority Owned:					
Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Y	Owned
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Laval, QC	BMW Laval and MINI Laval	BMW / MINI	2014	Y	Leased
Montreal, QC	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Y	Leased
Montreal, QC	Planete Mazda	Mazda	2017	Q1 2020	Leased

1 *Same store (indicated with the letter "Y" in the table above) means the franchised automobile dealership has been owned for at least two full years since acquisition. The dealership is then included in the quarter thereafter, for same store analysis.*

2 *This column summarizes whether the dealership property is owned or leased.*

3 *The Dealership consists of the following individual storefronts and franchises: Audi, Mercedes-Benz, Lincoln, Subaru, Volkswagen and Volvo.*

4 *Between the period of April 9, 2018 and April 23, 2018, the Company acquired substantially all of the operating and fixed assets of these dealerships. See "ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information related to this dealership acquisition.*

5 *On October 1, 2018, the Company acquired shares of Mercedes-Benz Heritage Valley. See "ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information related to this dealership acquisition.*

6 *On December 1, 2018, the Company purchased 100% of the voting shares of Rose City Ford Sales Limited. See "ACQUISITIONS, RELOCATIONS AND REAL ESTATE" for more information related to this dealership acquisition.*

7 *On March 6, 2019, the Company closed the sale of Toronto Dodge, which was presented as held for sale at December 31, 2018.*

5. SELECTED ANNUAL FINANCIAL INFORMATION

The following table shows the results of the Company for the years ended December 31, 2018, December 31, 2017 and December 31, 2016. The results of operations for these years are not necessarily indicative of the results of operations to be expected in any given comparable period.

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	2018	2017	2016
Income Statement Data			
New vehicles	1,802,203	1,827,559	1,652,795
Used vehicles	756,154	716,045	725,430
Parts, service and collision repair	451,760	416,690	382,933
Finance, insurance and other	140,664	141,266	130,423
Revenue	3,150,781	3,101,560	2,891,581
New vehicles	109,132	130,984	118,297
Used vehicles	43,327	43,738	47,192
Parts, service and collision repair	223,987	214,310	201,259
Finance, insurance and other	131,517	129,597	119,385
Gross Profit	507,963	518,629	486,133
Gross profit %	16.1%	16.7%	16.8%
Operating expenses	474,804	426,253	400,417
Operating expenses as a % of gross profit	93.5%	82.2%	82.4%
Operating (loss) profit[2]	(32,648)	118,969	40,912
Impairment (recovery) of non-financial assets	95,500	(816)	54,096
Net (loss) earnings attributable to AutoCanada shareholders	(78,083)	57,844	2,596
Adjusted net earnings attributable to AutoCanada shareholders[2,4]	1,175	42,665	41,983
EBITDA attributable to AutoCanada shareholders[2]	56,262	111,812	94,486
EBITDA attributable to AutoCanada shareholders as a % of sales[2]	1.8%	3.6%	3.3%
Free cash flow[2]	(28,805)	72,213	96,288
Adjusted free cash flow[2]	9,657	90,786	68,566
Basic earnings per share	(2.85)	2.11	0.09
Diluted earnings per share	(2.85)	2.11	0.09
Basic adjusted earnings per share[2,4]	0.04	1.56	1.53
Diluted adjusted earnings per share[2,4]	0.04	1.55	1.45
Dividends declared per share	0.40	0.40	0.55
Operating Data			
Vehicles (new and used) sold[3]	66,073	63,152	59,593
New vehicles sold[3]	43,451	43,773	40,032
New retail vehicles sold[3]	36,495	36,076	32,991
New fleet vehicles sold[3]	6,956	7,697	7,041
Used retail vehicles sold[3]	22,622	19,379	19,561
# of service and collision repair orders completed[3]	915,381	870,616	863,970
Absorption rate[2]	85%	89%	86%
# of dealerships at year end[5]	68	58	55
# of Same store dealerships[1]	47	49	44
# of service bays at year end	1,157	999	928
Same store revenue growth[1]	(1.9)%	2.0%	(5.6)%
Same store gross profit growth[1]	(3.7)%	1.5%	(5.4)%
Balance Sheet Data			
Total assets	1,720,568	1,761,046	1,600,615
Total long-term financial liabilities	389,042	358,160	378,746

1 *Same store revenue growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least two full years.*
2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*
3 *This number includes 100% of vehicles and service and collision repair orders sold by these dealerships in which we have less than 100% investment.*
4 *In Q1 2018, the Company redefined the calculation of adjusted net earnings to include the effect of dealership divestitures. As a result, the value presented for 2016 has been restated as presented above.*
5 *On March 6, 2019, the Company closed the sale of Toronto Dodge, which was presented as held for sale at December 31, 2018.*

6. SELECTED QUARTERLY FINANCIAL INFORMATION

The following table shows the unaudited results of the Company for each of the eight most recently completed quarters. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period.

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Income Statement Data								
New vehicles	432,756	509,281	522,150	338,016	417,626	497,711	558,682	353,540
Used vehicles	192,988	206,668	198,597	157,901	175,251	192,473	182,913	165,408
Parts, service and collision repair	121,304	113,087	121,476	95,893	107,156	104,816	113,983	90,735
Finance, insurance and other	35,742	37,882	38,365	28,675	33,027	39,571	39,324	29,344
Revenue	782,790	866,918	880,588	620,485	733,060	834,571	894,902	639,027
New vehicles	25,861	29,150	30,648	23,473	30,033	36,806	38,555	25,590
Used vehicles	8,637	12,955	13,173	8,562	7,563	11,140	13,095	11,940
Parts, service and collision repair	60,380	57,206	60,868	45,533	56,915	53,805	56,306	47,284
Finance, insurance and other	33,326	35,524	35,891	26,776	30,699	36,218	35,867	26,813
Gross Profit	128,204	134,835	140,580	104,344	125,210	137,969	143,823	111,627
Gross profit %	16.4%	15.6%	16.0%	16.8%	17.1%	16.5%	16.1%	17.5%
Operating expenses[8]	125,039	126,492	127,492	95,781	104,626	110,560	112,897	98,170
Operating expenses as a % of gross profit[8]	97.5%	93.8%	90.7%	91.8%	83.6%	80.1%	78.5%	87.9%
Operating (loss) profit	(576)	(5,259)	(42,719)	15,906	26,505	30,287	46,539	15,638
Impairment (recovery) of non-financial assets	17,834	19,569	58,097	—	(816)	—	—	—
Net (loss) income attributable to AutoCanada shareholders[8]	(26,892)	(15,563)	(40,458)	4,830	17,089	12,100	24,978	3,678
Adjusted net earnings attributable to AutoCanada shareholders[2,4,6,8,10]	(9,299)	333	5,298	4,830	8,935	13,581	15,547	4,602
EBITDA attributable to AutoCanada shareholders[2,8]	16,521	11,972	12,042	15,692	28,127	25,827	43,722	14,136
EBITDA attributable to AutoCanada shareholders as a % of sales[2, 8]	2.1%	1.4%	1.4%	2.5%	3.8%	3.1%	4.9%	2.7%
Free cash flow[2,8]	(7,658)	6,993	(13,751)	(14,388)	29,496	31,114	10,982	621
Adjusted free cash flow[2,8]	10,553	(965)	(3,652)	3,721	15,996	23,296	36,277	15,217
Basic earnings per share[8]	(0.98)	(0.57)	(1.48)	0.18	0.62	0.44	0.91	0.13
Diluted earnings per share[8]	(0.98)	(0.57)	(1.48)	0.18	0.62	0.44	0.91	0.13
Basic adjusted earnings per share[2,4,6,8,10]	(0.34)	0.01	0.19	0.18	0.33	0.50	0.57	0.17
Diluted adjusted earnings per share[2,4,6,8,10]	(0.34)	0.01	0.19	0.18	0.33	0.50	0.57	0.17
Dividends declared per share	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Operating Data								
Vehicles (new and used) sold[3]	16,024	18,863	18,519	12,667	14,475	17,132	18,490	13,055
New vehicles sold[3]	10,331	12,474	12,506	8,140	9,822	12,014	13,429	8,508
New retail vehicles sold[3]	9,214	10,353	10,264	6,664	8,444	10,334	10,545	6,753
New fleet vehicles sold[3]	1,117	2,121	2,242	1,476	1,378	1,680	2,884	1,755
Used retail vehicles sold[3]	5,693	6,389	6,013	4,527	4,653	5,118	5,061	4,547
# of service and collision repair orders completed[3]	245,682	241,103	248,167	180,429	224,006	220,669	228,872	197,069
Absorption rate[2]	87%	82%	88%	84%	90%	87%	87%	82%
# of dealerships at year end[9]	68	63	63	54	58	57	57	56
# of Same store dealerships[1]	47	49	49	49	49	48	47	47
# of service bays at year end	1,157	1,106	1,106	906	999	977	977	949
Same store revenue growth[1]	(3.0)%	(3.0)%	(5.1)%	4.6%	11.1%	2.9%	0.1%	(7.1)%
Same store gross profit growth[1]	(3.0)%	(8.5)%	(4.3)%	1%	1.4%	6.3%	1.1%	(1.2)%

1 Same store revenue growth and same store gross profit growth is calculated using franchised automobile dealerships that we have owned for at least two full years. Same store growth is in comparison with the same quarter in the prior year.
2 These financial measures have been calculated as described under "NON-GAAP MEASURES".
3 This number includes 100% of vehicles and service and collision repair orders sold by these dealerships in which we have less than 100% investment.
4 In Q1 2018, the Company redefined the calculation of adjusted net earnings to include the effect of dealership divestitures.
5 The results from operations have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused significant fluctuations in operating results from quarter to quarter.
6 These Q2 2018 numbers have been restated from those presented in our second quarter MD&A due to a previous computation error.
7 In Q1 2017, the Company redefined the calculation of adjusted EBITDA for the effect of management transition costs.
8 In Q4 2018, the Company recorded adjustments related to the fair value of certain assets acquired and liabilities assumed as part of the Grossinger Auto Group acquisition. The results as disclosed for Q2 2018 and Q3 2018 have been restated as if the fair value changes to net identifiable assets had been completed as of the acquisition date. Refer to Note 16 of the annual consolidated financial statements for the year ended December 31, 2018.
9 On March 6, 2019, the Company closed the sale of Toronto Dodge, which was presented as held for sale at December 31, 2018.
10 In Q4 2018, the Company adjusted the definition of adjusted EBITDA and adjusted net earnings to include non-recurring legal and loss provisions related to dealership fraud. As a result Q2 2018 has been adjusted from previously presented.

7. RESULTS OF OPERATIONS

Fourth Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the quarter decreased by $11.6 million or 41.3% to $16.5 million when compared to the results of the Company for the same period in the prior year. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended December 31, 2018, increased by $0.8 million or 3.5% from $21.9 million to $22.6 million when compared to the results of the Company for the same quarter in the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the three month period ended December 31 for the last three years of operations:

(in thousands of dollars)	2018	2017	2016
Period from October 1 to December 31			
Net (loss) income attributable to AutoCanada shareholders	(26,892)	17,089	13,785
Impairment (recovery) of non-financial assets, net[2]	17,834	(3,136)	—
Income taxes[2]	15,439	4,964	2,531
Depreciation of property and equipment[2]	4,332	4,947	4,634
Interest on long-term indebtedness[2]	5,808	4,263	4,310
EBITDA attributable to AutoCanada shareholders[1]	16,521	28,127	25,260
Add back:			
Share-based compensation attributed to changes in share price	365	69	105
Revaluation of redemption liabilities	7	(4,397)	(1,470)
Unrealized loss (gain) on embedded derivative	—	15	(17)
Allowances and writedowns associated with the winding down of operations[3]	3,246	—	—
Provision for wholesale fraud[4]	500	—	—
Management transition costs	1,999	—	—
Revaluation of contingent consideration	—	(416)	(4,840)
Settlement income	—	(1,518)	—
Adjusted EBITDA attributable to AutoCanada shareholders[1]	22,638	21,880	19,038

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *Represents the portion attributable to AutoCanada shareholders.*
3 *Represents non-recurring allowances and writedowns associated with a commercial fleet customization operation and a dealership body shop where management has determined that it was beneficial to take steps to wind-down operations.*
4 *During the year, the company recorded a non-recurring legal and loss provision associated with the fraud that occurred at Capital Chrysler in Q2 2018 — related to the wholesaling of new and used vehicles.*

Pre-tax earnings attributable to AutoCanada shareholders decreased by $33.5 million or 151.9% to $(11.5) million for the quarter from $22.1 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders decreased by $44.0 million or 257.4% to $(26.9) million in the fourth quarter of 2018 from $17.1 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders decreased by $10.5 million to $15.4 million in the fourth quarter of 2018 from $5.0 million in the same period of 2017.

Adjusted net earnings attributable to AutoCanada shareholders decreased by $18.2 million or 204.1% to $(9.3) million for the quarter from $8.9 million in the same period of the prior year.

Included in 2018 EBITDA and net earnings is a gain of $9.2 million in the fourth quarter from a sale-leaseback transaction with respect to four dealership properties.

The following table reconciles net earnings to adjusted net earnings for the three month period ended December 31 for the last three years of operations:

(in thousands of dollars)	2018	2017	2016
Net (loss) earnings attributable to AutoCanada shareholders	(26,892)	17,089	13,785
Add back:			
Impairment (recovery) of non-financial assets, net of tax	13,110	(2,296)	—
Share-based compensation attributed to changes in share price, net of tax	267	51	78
Revaluation of redemption liabilities	7	(4,397)	(1,470)
Unrealized loss (gain) on embedded derivative	—	15	(17)
Allowances and writedowns associated with the winding down of operations, net of tax[3]	2,373	—	—
Provision for wholesale fraud, net of tax[4]	366	—	—
Management transition costs, net of tax	1,470	—	—
Revaluation of contingent consideration	—	(416)	(4,840)
Settlement income, net of tax	—	(1,111)	—
Adjusted net (loss) earnings attributable to AutoCanada shareholders[1]	(9,299)	8,935	7,536
Weighted average number of shares - Basic	27,417,434	27,389,167	27,353,431
Weighted average number of shares - Diluted[2]	27,417,434	27,498,724	27,469,439
Adjusted net (loss) earnings per share attributable to AutoCanada shareholders - Basic[1]	(0.34)	0.33	0.28
Adjusted net (loss) earnings per share attributable to AutoCanada shareholders - Diluted[1]	(0.34)	0.33	0.27

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

2 *For the three month period ended December 31, 2018, Weighted average number of shares - Diluted, differs from the disclosed amounts on the December 31, 2018 Annual Consolidated Statements of Comprehensive (Loss) Income due to an anti-dilutive impact in the period.*

3 *Represents non-recurring allowances and writedowns associated with a commercial fleet customization operation and a dealership body shop where management has determined that it was beneficial to take steps to wind-down operations.*

4 *During the year, the company recorded a non-recurring legal and loss provision associated with the fraud that occurred at Capital Chrysler in Q2 2018 — related to the wholesaling of new and used vehicles.*

Annual Operating Results

EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2018, decreased by $55.6 million or 49.7% to $56.3 million, from $111.8 million when compared to the results of the Company in the prior year.

Adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31, 2018, decreased by $26.1 million or 27.4% from $95.4 million to $69.3 million when compared to the results of the Company in the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the year ended December 31 for the last three years of operations:

(in thousands of dollars)	**2018**	**2017**	**2016**
Period from January 1 to December 31			
Net (loss) income attributable to AutoCanada shareholders	(78,083)	57,844	2,596
Impairment of non-financial assets, net[2]	95,054	(3,136)	51,180
Income taxes[2]	(350)	19,800	5,826
Depreciation of property and equipment[2]	19,508	19,410	18,432
Interest on long-term indebtedness[2]	20,133	17,894	16,452
EBITDA attributable to AutoCanada shareholders[1]	56,262	111,812	94,486
Add back:			
Share-based compensation attributed to changes in share price	(427)	30	(75)
Revaluation of redemption liabilities	7	(2,869)	(765)
Unrealized loss (gain) on embedded derivative	—	15	3
Allowances and writedowns associated with the winding down of operations[3]	3,246	—	—
Provision for wholesale fraud[4]	2,000	—	—
Management transition costs	9,766	1,684	2,700
Revaluation of contingent consideration	15	(416)	(4,840)
Settlement income	(1,603)	(14,846)	—
Adjusted EBITDA attributable to AutoCanada shareholders[1, 5, 6]	69,266	95,410	91,509

1 This financial measure is identified and defined under the section "NON-GAAP MEASURES".
2 Represents the portion attributable to AutoCanada shareholders.
3 Represents non-recurring allowances and writedowns associated with a commercial fleet customization operation and a dealership body shop where management has determined that it was beneficial to take steps to wind-down operations.
4 During the year, the company recorded a non-recurring legal and loss provision associated with the fraud that occurred at Capital Chrysler in Q2 2018 — related to the wholesaling of new and used vehicles.
5 In Q1 2018, the Company redefined the calculation of adjusted EBITDA to include the effect of dealership divestitures. As a result, the value presented for 2016 has been restated, as presented above.
6 In Q1 2017, the Company redefined the calculation of adjusted EBITDA for the effect of management transition costs. As a result, the value presented for 2016 has been restated, as presented above.

For the year ended December 31, 2018, pre-tax earnings attributable to AutoCanada shareholders decreased by $156.1 million or 201.0% to $(78.4) million from $77.6 million in the prior year. Net earnings attributable to AutoCanada shareholders decreased by $135.9 million or 235.0% to $(78.1) million in the year ended December 31, 2018, from $57.8 million when compared to the prior year.

Income tax expense attributable to AutoCanada shareholders decreased by $20.2 million to $(0.4) million in the year ended December 31, 2018, from $19.8 million in 2017.

Included in 2018 EBITDA are gains totaling $13.9 million from sale-leaseback transactions of dealership properties.

The following table reconciles net earnings to adjusted net earnings for the year ended December 31 for the last three years of operations:

(in thousands of dollars)	2018	2017	2016
Net (loss) earnings attributable to AutoCanada shareholders	(78,083)	57,844	2,596
Add back:			
Impairment of non-financial assets, net of tax	69,736	(2,295)	42,987
Share-based compensation attributed to changes in share price, net of tax	(312)	22	(55)
Revaluation of redemption liabilities	7	(2,869)	(765)
Unrealized loss (gain) on embedded derivative	—	15	3
Allowances and writedowns associated with the winding down of operations, net of tax[3]	2,373	—	—
Provision for wholesale fraud, net of tax[4]	1,462	—	—
Management transition costs, net of tax	7,149	1,231	2,057
Revaluation of contingent consideration	15	(416)	(4,840)
Settlement income, net of tax	(1,172)	(10,867)	—
Adjusted net earnings attributable to AutoCanada shareholders[1, 5, 6]	1,175	42,665	41,983
Weighted average number of shares - Basic	27,399,117	27,379,193	27,350,555
Weighted average number of shares - Diluted[2]	28,297,901	27,473,995	27,455,686
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1,5,6]	0.04	1.56	1.53
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1,5,6]	0.04	1.55	1.45

1 *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
2 *For the year ended December 31, 2018, Weighted average number of shares - Diluted, differs from the disclosed amounts on the December 31, 2018 Annual Consolidated Statements of Comprehensive (Loss) Income due to an anti-dilutive impact in the period.*
3 *Represents non-recurring allowances and writedowns associated with a commercial fleet customization operation and a dealership body shop where management has determined that it was beneficial to take steps to wind-down operations.*
4 *During the year, the company recorded a non-recurring legal and loss provision associated with the fraud that occurred at Capital Chrysler in Q2 2018 — related to the wholesaling of new and used vehicles.*
5 *In Q1 2018, the Company redefined the calculation of adjusted net earnings to include the effect of dealership divestitures. As a result, the value presented for 2016 has been restated as presented above.*
6 *In Q1 2017, the Company redefined the calculation of adjusted net earnings for the effect of management transition costs. As a result, the value presented for 2016 has been restated as presented above.*

Revenues

The following tables summarize revenue for the three months and year ended December 31:

	Three Months Ended December 31		
	2018 $	**2017 $**	**Change $**
New vehicles	432,756	417,626	15,130
Used vehicles	192,988	175,251	17,737
Parts, service and collision repair	121,304	107,156	14,148
Finance, insurance and other	35,742	33,027	2,715
Total Revenue	782,790	733,060	49,730

	Year Ended December 31		
	2018 $	**2017 $**	**Change $**
New vehicles	1,802,203	1,827,559	(25,356)
Used vehicles	756,154	716,045	40,109
Parts, service and collision repair	451,760	416,690	35,070
Finance, insurance and other	140,664	141,266	(602)
Total Revenue	3,150,781	3,101,560	49,221

Gross Profit

The following tables summarize gross profit for the three months and year ended December 31:

	Three Months Ended December 31		
	2018 $	2017 $	Change $
New vehicles	25,861	30,033	(4,172)
Used vehicles	8,637	7,563	1,074
Parts, service and collision repair	60,380	56,915	3,465
Finance, insurance and other	33,326	30,699	2,627
Total Gross Profit	128,204	125,210	2,994

	Year Ended December 31		
	2018 $	2017 $	Change $
New vehicles	109,132	130,986	(21,854)
Used vehicles	43,327	43,738	(411)
Parts, service and collision repair	223,987	214,309	9,678
Finance, insurance and other	131,517	129,596	1,921
Total Gross Profit	507,963	518,629	(10,666)

New vehicles

New vehicle revenue increased by 3.6% in the quarter as compared to the same period of the prior year.

The decrease in gross profit from new vehicles for the three month period ended December 31, 2018 is due to a decrease in gross profit per unit of $554; however, this is slightly offset by an increase in new vehicles sold of 509 compared to the same period of the prior year.

The $25.4 million year-over-year decrease in revenue for the year ended December 31, 2018 from new vehicles is due to a decrease in new vehicles sold of 322 and a decrease in revenue per unit of $274 compared to the same period of the prior year.

Used vehicles

Used vehicle revenue increased by 10.1% in the three months ended December 31, 2018 as compared to the same period of the prior year.

The increase in gross profit in the quarter from used vehicles is due to an increase in used vehicles sold of 1,040 and a decrease in gross profit per unit of $108.

The $40.1 million year-over-year increase in revenue for the year ended December 31, 2018 from used vehicles is due to an increase in used vehicles sold of 3,243, offset by a decrease in revenue per unit of $3,524 compared to the same period of the prior year.

Finance, insurance and other

Finance and insurance products are sold with both new and used vehicles. The quarterly year-over-year finance, insurance and other revenue increased by 8.2%. Finance and insurance revenue per vehicle sold has decreased by 4.9% or $124, to $2,398 in the quarter, from $2,522 in the same period of the prior year.

The year-over-year finance, insurance and other revenue for the year ended December 31, 2018 decreased by 0.4%. Finance and insurance revenue per vehicle sold has decreased by 6.6%, or $168, to $2,379 from $2,547 in the prior year.

Parts, service and collision repair

Parts, service and collision repair revenues quarterly year-over-year increased by 13.2%.

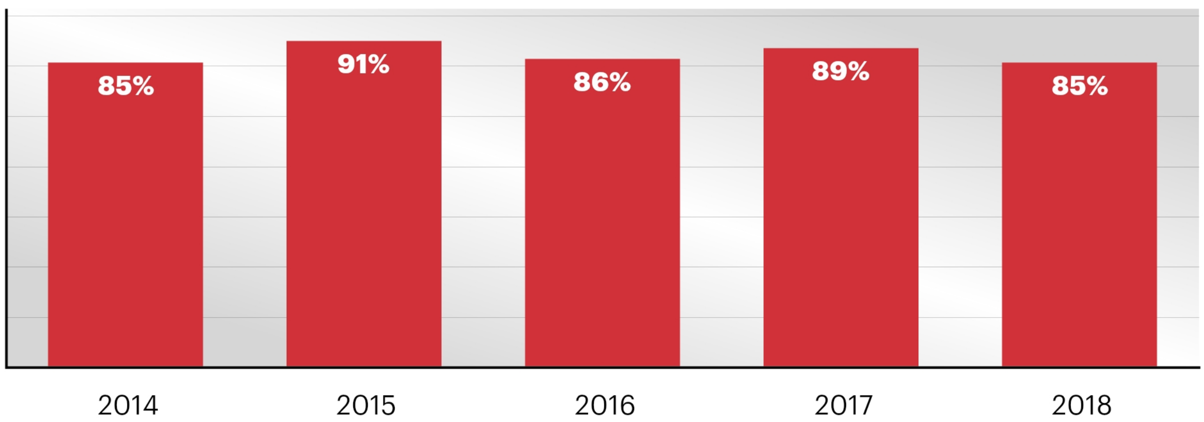
Gross profit in the quarter from parts, service and collision repair increased by 6.1% which is due to an increase in repair orders of 21,676.

The year-over-year parts, service and collision repair revenues increased by 8.4%. The increase in revenue for the year ended December 31, 2018 from parts, service and collision repair is due to an increase in revenue per order of $15, and an increase in repair orders of 44,765 compared to the same period of the prior year.

Absorption rate[1]

Absorption rate measures the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership.

The following table summarizes absorption rate since the 2014 period:



1 *This financial measure has been calculated as described under "NON-GAAP MEASURES".*

Over the past five years the absorption rate for the period ending December 31 has ranged between 91% to a low of 85% in 2018. For the year ended December 31, 2018, the Company had an absorption rate of 85%.

Operating expenses

Operating costs consist of four major categories:

Employee costs

Employee costs are the costs associated with employing staff both at the dealerships and at AutoCanada's head office. Dealership employees are largely commission based, resulting in employee costs being largely variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

Administrative costs comprise the remaining costs of running our dealerships. Advertising, utilities, service shop consumables, information processing, insurance, and consulting costs comprise a significant portion of the administrative costs. Administrative costs can be either fixed or variable in nature. The Company operates a centralized marketing department and information technology department, both of which provide services to the dealerships in order to leverage the size of the group as a means to lower the operating costs of the dealerships.

Facility lease costs

Facility lease costs relate to the cost of leasing dealership facilities not owned by AutoCanada. Facility lease costs are fixed in nature as lease contracts are based on the market value of the property and are long-term. Facility lease costs increased and depreciation of property and equipment decreased on a quarterly year-over-year basis, primarily driven by the impact of the sale-leaseback transactions executed in 2018.

Depreciation of property and equipment

Depreciation of property and equipment relates to the depreciation of the dealership assets including buildings, machinery and equipment, leasehold improvements, company and lease vehicles, furniture, and computer hardware. Depreciation rates vary based on the nature of the asset. Since many operating expenses are variable in nature, Management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. The Company calculates its operating expenses as a percentage of gross margin excluding and including depreciation, and believes the percentage excluding depreciation is a more accurate measure of operating performance.

The following table summarizes operating expenses as a percentage of gross profit, broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

	Three Months Ended December 31			Year Ended December 31		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Employee costs before management transition costs	54.1%	50.6%	3.5%	52.8%	50.7%	2.1%
Management transition costs	1.6%	0.0%	1.6%	1.9%	0.3%	1.6%
Administrative costs - Variable	23.6%	19.3%	4.3%	23.1%	17.8%	5.3%
Total variable expenses	79.3%	69.9%	9.4%	77.8%	68.8%	9.0%
Administrative costs - Fixed	6.8%	4.3%	2.5%	6.1%	4.7%	1.4%
Facility lease costs	7.9%	5.1%	2.8%	5.7%	4.7%	1.0%
Fixed expenses before Depreciation	14.7%	9.4%	5.3%	11.8%	9.4%	2.4%
Operating expenses before depreciation	94.0%	79.3%	14.7%	89.6%	78.2%	11.4%
Depreciation of property and equipment	3.5%	4.2%	(0.7)%	3.9%	3.9%	0.0%
Total fixed expenses	18.2%	13.6%	4.6%	15.7%	13.3%	2.4%
Total operating expenses	97.5%	83.5%	14.0%	93.5%	82.1%	11.4%

Total Operating Expenses

Total operating expenses have increased in the quarter by $20.7 million compared to the previous period of the prior year. Operating expenses as a percentage of gross profit have increased by 14.0% in the quarter.

For the year ended December 31, 2018, operating expenses as a percent of gross profit increased by 11.4%. Included in operating expenses are management transition costs of $9.8 million, a number of non-recurring expenses such as inventory adjustments, a provision of $2.0 million related to fraud at one our dealerships in the second quarter, allowances and writedowns of $3.2 million related to the winding down of operations, and costs associated with implementing our Go Forward Plan.

In addition, the acquisition of our U.S. Operations substantially increased our operating expenses given the high cost structure of those operations.

Variable Expenses

Total variable expenses for the quarter have increased by 9.5% as compared to the same period of the prior year.

Employee costs have increased in the quarter by 5.0% as compared to the same period of the prior year.

Variable Administrative costs increased by $6.3 million of which the majority relates to expenses incurred in the U.S. Operations which was not present in the comparative period. As a percentage of gross profit, variable administrative costs increased by 4.3% for the quarter ended December 31, 2018.

For the year ended December 31, 2018, employee costs have increased by 3.7% of operating expenses as a percentage of gross profit. Excluding management transition costs, employee costs have increased by 2.1%, as a percentage of gross profit.

For the year ended December 31, 2018, variable administrative costs increased by 5.3% compared to the same period of the prior year, as a percentage of gross profit.

Fixed Expenses

Total fixed expenses for the quarter increased by 4.6% as compared to the same period of the prior year.

Fixed administrative costs increased by $3.4 million which is 2.5% on a year-over-year basis for the quarter, as a percentage of gross profit. The increase was related to increased insurance and property tax expenses during the quarter when compared to the prior period. Facility lease costs and depreciation of property and equipment saw a 2.8% increase and a 0.7% decrease, respectively, for the quarter, primarily driven by the impact of the sale-leaseback transactions.

For the year ended December 31, 2018, fixed administrative costs increased by 1.4%, facility lease costs increased by 1.0% and depreciation of property and equipment was substantially in line with prior year, as a percentage of gross profit.

Income Taxes

The following table summarizes income taxes for the three months and year ended December 31:

	Three Months Ended December 31	
	2018 $	2017 $
Current tax	(6,480)	13,254
Deferred tax	22,757	(8,193)
Income tax (recovery) expense	16,277	5,061

	Year Ended December 31	
	2018 $	2017 $
Current tax	3,354	20,901
Deferred tax	(3,528)	1,812
Income tax (recovery) expense	(174)	22,713

Income tax (recovery) expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ended December 31, 2018 was 26.9% (2017 - 26.8%).

Finance costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements.

During the three month period ended December 31, 2018, finance costs on our revolving floorplan facilities increased by 24.1% to $5.2 million from $4.2 million in the same period of the prior year, mainly due to increased interest rates and higher inventory levels.

During the year ended December 31, 2018, finance costs on our revolving term facilities increased by $6.9 million to $21.4 million from $14.5 million in the same period of the prior year. The increase in finance costs was attributable to increased interest rates and a larger outstanding debt balance for most of 2018.

In the fourth quarter the company initiated a hedging program by entering into a number of interest-rate swaps, thereby, transforming the variable interest-rate exposure into fixed-rate obligations, to protect against further interest rate hikes. Refer to note 39 of the Consolidated Financial Statements for the year ended December 31, 2018.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities. This reduces the dealerships' cost of inventory by partially offsetting the floorplan financing expense. Our floorplan credits decreased substantially in 2018 which was largely attributable to the sale of the four GM stores that were disposed of in January of 2018.

Accounting standards require the floorplan credits to be accounted for as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Floorplan financing	5,194	4,187	1,007	21,440	14,515	6,925
Floorplan credits earned	(2,778)	(4,114)	1,336	(13,982)	(17,054)	3,072
Net carrying cost of vehicle inventory	2,416	73	2,343	7,458	(2,539)	9,997

Canada and U.S. Segmented Operating Results

The following table shows the segmented operating results for the company for the year ended December 31, 2018:

	Canada $	U.S.[2] $	Total $
New vehicles	1,587,047	215,156	1,802,203
Used vehicles	664,163	91,991	756,154
Parts, service and collision repair	403,759	48,001	451,760
Finance, insurance and other	123,851	16,813	140,664
Total Revenue	2,778,820	371,961	3,150,781
New vehicles	108,093	1,039	109,132
Used vehicles	37,801	5,527	43,328
Parts, service and collision repair	197,701	26,285	223,986
Finance, insurance and other	115,510	16,007	131,517
Total Gross Profit	459,105	48,858	507,963
Employee costs	245,109	32,782	277,891
Administrative costs	129,267	18,831	148,098
Facility lease costs	23,014	5,854	28,868
Depreciation of property and equipment	18,212	1,735	19,947
Total Operating Expenses	415,602	59,202	474,804
Operating expenses as a % of gross profit			
Employee costs before management transition costs	51.8%	62.1%	52.8%
Management transition costs	1.6%	5.0%	1.9%
Administrative costs - Variable	22.3%	30.0%	23.1%
Total variable expenses	75.7%	97.1%	77.8%
Administrative costs - Fixed	5.8%	8.5%	6.1%
Facility lease costs	5.0%	12.0%	5.7%
Fixed expenses before depreciation	10.8%	20.5%	11.8%
Operating expenses before depreciation	86.5%	117.6%	89.6%
Depreciation of property and equipment	4.0%	3.6%	3.9%
Total fixed expenses	14.8%	24.1%	15.7%
Total Operating Expenses	90.5%	121.2%	93.5%
Operating Data			
Vehicles (new and used) sold[1]	57,281	8,792	66,073
New vehicles sold[1]	37,653	5,798	43,451
New retail vehicles sold[1]	30,725	5,770	36,495
New fleet vehicles sold[1]	6,928	28	6,956
Used retail vehicles sold[1]	19,628	2,994	22,622
# of service and collision repair orders completed[1]	805,028	110,353	915,381
# of dealerships at year end[3]	54	14	68
# of service bays at year end	957	200	1,157

1 *This number includes 100% of vehicles and service and collision repair orders sold by these dealerships in which we have less than 100% investment.*

2 *Between the period of April 9, 2018 and April 23, 2018, the Company closed transactions to purchase substantially all of the operating and fixed assets of 14 dealerships located in Illinois. As such, the U.S. segmented operating results only represent the 8 months under our ownership.*

3 *On March 6, 2019, the Company closed the sale of Toronto Dodge, which was presented as held for sale at December 31, 2018.*

8. SAME STORE RESULTS

Same store is defined as a franchised automobile dealership that has been owned for at least two full years since acquisition. The dealership is then included in the quarter thereafter, for same stores analysis. The Company believes that it takes two years for an acquired dealership or Open Point to achieve normal operating results.

We continue to dedicate significant resources to newly acquired dealerships in order to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future in order to successfully integrate new dealerships into our model.

Number of Same Store by Province

The following table summarizes the number of Same Store for the year ended December 31, 2018 by Province:

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic	Total
FCA	3	8	1	1	1	—	2	16
Hyundai	2	4	—	—	2	—	—	8
General Motors	1	—	3	1	—	—	—	5
Volkswagen	3	2	—	1	—	—	—	6
Nissan/Infiniti	1	3	—	—	3	—	—	7
Mitsubishi	—	1	—	—	—	—	—	1
BMW/MINI	—	—	—	—	—	2	—	2
Audi	—	—	—	1	—	—	—	1
Subaru	—	1	—	—	—	—	—	1
Total	10	19	4	4	6	2	2	47

Same Store Revenue and Vehicles Sold

	Three Months Ended December 31			Year Ended December 31		
(in thousands of dollars)	2018	2017	% Change	2018	2017	% Change
Revenue Source						
New vehicles - Retail	258,289	279,051	(7.4)%	1,123,438	1,203,580	(6.7)%
New vehicles - Fleet	48,810	50,350	(3.1)%	281,627	266,731	5.6%
Total New vehicles	307,099	329,401	(6.8)%	1,405,065	1,470,311	(4.4)%
Used vehicles - Retail	105,170	95,038	10.7%	441,500	410,536	7.5%
Used vehicles - Wholesale	34,770	41,451	(16.1)%	151,791	175,333	(13.4)%
Total Used vehicles	139,940	136,489	2.5%	593,291	585,869	1.3%
Finance, insurance and other	24,757	27,849	(11.1)%	112,415	116,315	(3.4)%
Subtotal	471,796	493,739	(4.4)%	2,110,771	2,172,495	(2.8)%
Parts, service and collision repair	90,205	85,871	5.0%	350,514	337,675	3.8%
Total	562,001	579,610	(3.0)%	2,461,285	2,510,170	(1.9)%
New retail vehicles sold (units)	6,106	6,806	(10.3)%	26,616	29,591	(10.1)%
New fleet vehicles sold (units)	1,039	1,114	(6.7)%	6,663	6,322	5.4%
Used retail vehicles sold (units)	4,020	3,682	9.2%	17,082	16,000	6.8%
Total	11,165	11,602	(3.8)%	50,361	51,913	(3.0)%
Total vehicles retailed (units)	10,126	10,488	(3.5)%	43,698	45,591	(4.2)%

Revenues - Same Store Analysis

Same store revenue decreased by $17.6 million or 3.0%, for the three month period ended December 31, 2018 when compared to the same period in the prior year.

Same store new vehicle revenues decreased by $22.3 million or 6.8% for the fourth quarter of 2018 over the prior year due to a decrease in new vehicle sales of 775 units or 9.8%, which was offset by an increase in the average revenue per new vehicle sold of $1,390 or 3.3%.

Same store new vehicle revenues decreased by $65.2 million or 4.4% for the year ended December 31, 2018, over the prior year due to a decrease in new vehicle sales of 2,634 units or 7.3%, offset by an increase in the average revenue per new vehicle sold of $1,280 or 3.1%.

Same store used vehicle revenues increased by $3.5 million or 2.5% for the three month period ended December 31, 2018, over the same period in the prior year due to an increase in retail used car volume by 338 units or 9.2%, offset by a decrease in the average revenue per used vehicle sold of $2,258 or 6.1%.

For the year ended December 31, 2018, same store used vehicle revenues increased by $7.4 million or 1.3% due to an increase in used vehicle sales of 1,082 units or 6.8%, offset by a decrease in the average revenue per used vehicle sold of $1,885 or 5.1%.

Same store parts, service and collision repair revenue increased by $4.3 million or 5.0% for the fourth quarter of 2018 compared to the prior period.

For the year ended December 31, 2018, same store parts, service and collision repair revenue increased by $12.8 million or 3.8%, mainly due to a $21 or 4.4% increase in the average revenue per repair order and offset by a decrease in overall repair orders completed of 4,059.

Same store finance, insurance and other revenue decreased by $3.1 million or 11.1% for the three month period ended December 31, 2018 over the same period in 2017. This was due to a decrease in the number of new and used vehicles retailed of 362 units, and a decrease in the average revenue per unit retailed of $210 or 7.9%.

For the year ended December 31, 2018, same store finance, insurance and other revenue decreased by $3.9 million or 3.4% over the same period in 2017 mainly due to a decrease in the number of new and used vehicles retailed of 1,893 units, offset by an increase in the average revenue per unit retailed of $21 or 0.8%.

Same Store Gross Profit and Gross Profit Percentage

	Three Months Ended December 31				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	**2018**	**2017**	**% Change**	**2018**	**2017**
Revenue Source					
New vehicles - Retail	19,326	19,634	(1.6)%	7.5%	7.0%
New vehicles - Fleet	1,143	1,360	(16.0)%	2.3%	2.7%
Total New vehicles	20,469	20,994	(2.5)%	6.7%	6.4%
Used vehicles - Retail	6,014	6,641	(9.4)%	5.7%	7.0%
Used vehicles - Wholesale	519	1,151	(54.9)%	1.5%	2.8%
Total Used vehicles	6,533	7,792	(16.2)%	4.7%	5.7%
Finance, insurance and other	23,757	24,302	(2.2)%	96.0%	87.3%
Subtotal	50,759	53,088	(4.4)%	10.8%	10.8%
Parts, service and collision repair	44,799	45,446	(1.4)%	49.7%	52.9%
Total	95,558	98,534	(3.0)%	17.0%	17.0%

(in thousands of dollars)	Year Ended December 31				
	Gross Profit			Gross Profit %	
	2018	2017	% Change	2018	2017
Revenue Source					
New vehicles - Retail	85,953	96,932	(11.3)%	7.7%	8.1%
New vehicles - Fleet	5,335	4,797	11.2%	1.9%	1.8%
Total New vehicles	91,288	101,729	(10.3)%	6.5%	6.9%
Used vehicles - Retail	33,988	35,645	(4.6)%	7.7%	8.7%
Used vehicles - Wholesale	3,326	5,295	(37.2)%	2.2%	3.0%
Total Used vehicles	37,314	40,940	(8.9)%	6.3%	7.0%
Finance, insurance and other	104,770	105,846	(1.0)%	93.2%	91.0%
Subtotal	233,372	248,515	(6.1)%	11.1%	11.4%
Parts, service and collision repair	173,798	174,177	(0.2)%	49.6%	51.6%
Total	407,170	422,692	(3.7)%	16.5%	16.8%

Gross Profit - Same Store Analysis

Same store gross profit decreased by $3.0 million or 3.0% for the three month period ended December 31, 2018 when compared to the same period in the prior year.

Same store new vehicle gross profit decreased by $0.5 million or 2.5% in the three month period ended December 31, 2018, when compared to 2017, as a result of a decrease in new vehicle sales of 775 units or 9.8%, offset by an increase in the average gross profit per new vehicle sold of $214 or 8.1%.

For the year ended December 31, 2018, same store new vehicle gross profit decreased by $10.4 million or 10.3% which can be mainly attributed to a decrease in new vehicle sales of 2,634 units or 7.3%, and a decrease in the average gross profit per new vehicle sold of $90 or 3.2%.

Same store used vehicle gross profit decreased by $1.3 million or 16.2% in the three month period ended December 31, 2018 over the prior year. This was due to a decrease in the average gross profit per used vehicle retailed of $491 or 23.2%, partially offset by an increase in the number of used vehicles sold of 338 units or 9.2%.

For the year ended December 31, 2018, same store used vehicle gross profits decreased by $3.6 million or 8.9% which was mainly due to a decrease in the average gross profit per vehicle retailed of $374 or 14.6%, partially offset by an increase in the number of vehicles retailed of 1,082 units.

Same store parts, service and collision repair gross profit decreased by $0.6 million or 1.4% in the three month period ended December 31, 2018, when compared to the same period in the prior year, which can be mainly attributed to a decrease in the number of repair orders completed of 1,555.

For the year ended December 31, 2018, same store parts, service and collision repair gross profit decreased by $0.4 million or 0.2%, which can be mainly attributed to a decrease in the number of repair orders completed of 4,059.

Same store finance and insurance gross profit decreased by $0.5 million or 2.2% in the three month period ended December 31, 2018, when compared to the prior year, as a result of a decrease in units retailed of 362, offset by an increase in the average gross profit per unit sold of $29 or 1.3%.

For the year ended December 31, 2018, same store finance and insurance gross profit decreased by $1.1 million or 1.0% and can be attributed to a decrease in units retailed of 1,893.

The following table summarizes same store total revenue for the three months and year ended December 31 by Province:

(in thousands of dollars)	Three Months Ended December 31			Year Ended December 31		
	2018	**2017**	**% Change**	**2018**	**2017**	**% Change**
British Columbia	104,961	121,743	(13.8)%	512,423	532,926	(3.8)%
Alberta	189,118	182,220	3.8%	835,809	846,310	(1.2)%
Saskatchewan	53,901	58,187	(7.4)%	238,691	243,325	(1.9)%
Manitoba	49,824	45,586	9.3%	198,908	194,786	2.1%
Ontario	47,294	48,677	(2.8)%	210,430	196,187	7.3%
Quebec	92,303	92,709	(0.4)%	347,435	350,392	(0.8)%
Atlantic	24,600	30,488	(19.3)%	117,589	146,244	(19.6)%
Total	562,001	579,610	(3.0)%	2,461,285	2,510,170	(1.9)%

The following table summarizes same store gross profit for the three months and year ended December 31 by Province:

(in thousands of dollars)	Three Months Ended December 31			Year Ended December 31		
	2018	**2017**	**% Change**	**2018**	**2017**	**% Change**
British Columbia	18,807	20,176	(6.8)%	79,852	85,853	(7.0)%
Alberta	34,732	37,522	(7.4)%	152,074	158,942	(4.3)%
Saskatchewan	9,425	10,289	(8.4)%	41,838	45,146	(7.3)%
Manitoba	9,215	8,258	11.6%	35,505	35,191	0.9%
Ontario	7,131	7,429	(4.0)%	29,980	29,064	3.2%
Quebec	13,911	10,370	34.1%	52,470	47,884	9.6%
Atlantic	2,337	4,490	(48.0)%	15,451	20,612	(25.0)%
Total	95,558	98,534	(3.0)%	407,170	422,692	(3.7)%

9. ACQUISITIONS, RELOCATIONS, REAL ESTATE AND LEGAL

Dealership Operations and Expansion

With the addition of our acquisition in the U.S. during the second quarter, the acquisitions of Mercedes-Benz Heritage Valley and Rose City Ford in the fourth quarter, we operated 68 dealerships, representing 77 franchises as at December 31, 2018. Our principal focus currently is on executing on our Go-Forward plan and improving our operations in both Canada and the U.S. We expect to put more focus on our acquisition strategy later in 2019. The Company will be patient with our acquisition strategy, focusing on acquisitions that are accretive and provide diversity in terms of brand and geography. Management and the Company have excellent relationships with our manufacturer partners, providing the Company with greater opportunities with brands we currently operate. As a result of these established relationships with our current manufacturers, we expect to have opportunities with the brands we currently do not operate in the near future.

Rose City Ford

On December 1, 2018, the Company, through a wholly owned subsidiary, 2667465 Ontario Inc., purchased all of the issued and outstanding shares of Rose City Ford Sales Limited, which owns and operates a Ford dealership in Windsor Ontario, for total cash consideration of $24.8 million. At the time of acquisition, Rose City Ford Sales Limited had net working capital of $6.9 million. The acquisition was funded by borrowing under our revolving term facility. In 2017, the dealership retailed 1,812 new and used vehicles and generated revenue of $76.6 million.

Mercedes-Benz Heritage Valley

On October 1, 2018, the Company purchased 100% of the issued and outstanding shares of Ericksen M-B Ltd., which owns and operates a Mercedes-Benz dealership in Edmonton, Alberta for total cash consideration of $23.9 million. The acquisition was funded by the sale of real estate as part of a sale-leaseback transaction which closed in Q3 2018. In 2017, the dealership retailed 1,288 new and used vehicles and generated revenue of $87.5 million.
As we expand our geographical presence, we are establishing regional and brand specialists whose role it is to ensure that every store in our portfolio meets not only our volume and profit targets, but also meets sales and customer satisfaction objectives established by the manufacturers.

Dealership Divestiture

On November 19, 2018, the Company sold substantially all of the operating and fixed assets, including the land and facilities, of North Edmonton Kia, located in Edmonton, AB for net proceeds of $10.2 million resulting in a pre-tax gain on divestiture of $0.8 million.

On December 17, 2018, the Company sold substantially all of the operating and fixed assets of Courtesy Mitsubishi, located in Calgary, Alberta for cash consideration. Net proceeds of $2.5 million resulted in a pre-tax loss on divestiture of $0.03 million.

Dealership Open Points

The retail automotive industry is a mature industry and rights to open new franchised automobile dealerships are rarely awarded by the automobile manufacturers. However, from time to time automobile manufacturers may seek to establish new dealerships in attractive markets. The right to open a new franchised automobile dealership in a specific location granted by an automobile manufacturer to a dealer is referred to in the industry as an Open Point. Generally, a new franchised automobile dealership is fully performing within one to three years depending on the manufacturer and location.

Costs relating to Open Points are significant and vary by dealership depending upon size and location. We generally believe that Open Points can be very costly given the time it takes to establish the business in the first couple of years of operation. However, in some cases, an Open Point can be very strategic.

Maple Ridge Chevrolet Buick GMC Open Point

The Company has been awarded the right to a General Motors Open Point dealership featuring the Chevrolet, Buick and GMC brands in Maple Ridge, BC, a community located in the northeastern sector of Greater Vancouver. The Company will construct an approximately 33,400 square foot facility designed to General Motors image standards, with construction expected to be completed in the first quarter of 2020.

We believe this is a very strategic Open Point. The Maple Ridge Chevrolet Buick GMC dealership will complement AutoCanada's existing dealerships in Maple Ridge, British Columbia and AutoCanada's five other General Motors dealerships in British Columbia, Saskatchewan and Manitoba.

The land for the Open Point was included in the sale-leaseback transaction with Capital Automotive and

Capital Automotive will fund the construction of the facility.

Sale-Leaseback Transactions

On September 28, 2018, the Company executed an agreement to sell and subsequently leaseback the BMW Laval and Sherwood Park Volkswagen dealership properties to Automotive Properties Real Estate Investment Trust for a purchase price of $55.5 million. On the transaction, the Company recognized a gain of $4.6 million.

The net proceeds of the transaction were used to fund the acquisition of Mercedes-Benz Heritage Valley and to repay the existing mortgages on the properties.

On December 21, 2018, the Company completed a sale-leaseback transaction for four of its dealership properties with Capital Automotive Real Estate Services Inc. AutoCanada leased the properties from Capital Automotive under long-term triple net leases. On the transaction, the Company recognized a gain of $9.2 million on the sale of these dealership properties. $2.2 million of net proceeds relates to the sale of leasehold improvements on a property it did not own which reduced an impairment charge taken at June 30, 2018.

The transaction provided for proceeds of approximately $54.7 million which were used to repay the Company's credit facility. In addition, Capital Automotive has agreed to fund building improvements and construction. Management expects to incur approximately $32.6 million in Canada and $20.5 million in the U.S. ($15.0 million USD) for capital requirements in respect of the properties, including the reconstruction of three existing dealerships and the construction of the Maple Ridge Chevrolet Buick GMC Open Point.

Capital Plan

The Company maintains a capital plan for contemplated future capital projects. Details of the capital plan are described below:

Dealership Relocations

Management estimates the total capital requirements of currently planned dealership relocations to be approximately $64.1 million to the end of 2023. The Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed. The Company expects that most of these capital requirements will be funded by landlords that will own the land.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $63.5 million in capital costs that it may incur in order to expand or renovate various current locations through to the end of 2023. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities. Its quite likely that a substantial portion of these capital costs will be funded by landlords that own the properties.

The following summarizes the capital plan for contemplated future capital projects:

(in millions of dollars)	2019	2020	2021	2022	2023	Total
Same store						
Dealership relocations	5.0	13.3	33.3	11.2	1.4	64.1
Dealership expansion and imaging requirements	29.6	21.9	4.8	1.5	0.5	58.2
Capital plan	34.6	35.2	38.1	12.7	1.9	122.3
Expected to be financed	29.2	27.8	29.3	8.5	1.5	96.2
Cash outlay[1]	5.4	7.4	8.8	4.2	0.4	26.1
Non-same store						
Dealership expansion and imaging requirements	0.1	2.6	1.5	0.5	0.5	5.2
Capital plan	0.1	2.6	1.5	0.5	0.5	5.2
Expected to be financed	0.1	1.3	—	—	—	1.4
Cash outlay[1]	—	1.3	1.5	0.5	0.5	3.8
Total capital plan	34.7	37.8	39.6	13.2	2.4	127.5
Total cash outlay	5.4	8.7	10.3	4.7	0.9	29.9

1 *Refers to amount expected to be funded by internal Company cash flow.*

Notwithstanding the capital plan laid out above, expected capital expenditures are subject to deferral due to issues in obtaining permits, construction delays, changes in re-imaging requirements, economic factors, or other delays that are normal to the construction process. The above is considered to be a guide for when the Company expects to perform capital expenditures, however, significant deferral may occur in the future and a significant portion of these capital expenditures may be funded by landlords. Management closely monitors the capital plan and adjusts as appropriate based on Company performance, manufacturer requirements, expected economic conditions, and individual dealership needs. Management performs a robust analysis on all future expenditures prior to the allocation of funds. Timing of dealership relocations is determined based on the dealership's current performance, the market, and expected return on invested capital.

Litigation against Priestner

On February 6, 2019, the Company announced that it has commenced legal proceedings against Patrick Priestner and his holding companies, including Canada One Auto Group Ltd. Mr. Priestner was previously the Chief Executive Officer and Chairman of the Company. The Company is claiming that during Mr. Priestner's tenure with the Company, he breached his fiduciary and other duties to the Company by appropriating corporate opportunities of the Company to acquire dealerships privately through Canada One Auto Group Ltd. and his other holding companies. The remedies sought by the Company from the Ontario Superior Court of Justice include an accounting of profits, damages and the declaration of constructive trust over the dealerships acquired by the defendants resulting from Mr. Priestner's alleged wrongful conduct.

10. LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and paying dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short-term and long-term indebtedness.

Under our franchise agreements, manufacturers require us to maintain a minimum level of working capital. We maintain working capital in excess of manufacturer requirements which may be used for capital expenditures. The Company's analysis of its available capital based on the balance sheet at December 31, 2018, is as follows:

- The Company had drawn $179.3 million on its $420.0 million revolving term facility.

As a result of the above, as at December 31, 2018, the Company currently has approximately $240.7 million in readily available liquidity, not including future retained cash from operations. However, the Company's ability to borrow under this facility requires it to comply with its financial covenants.

Cash Flow from Operating Activities

Cash provided by operating activities (including changes in non-cash working capital) of the Company for the year ended December 31, 2018, was $(17.0) million (cash provided by operating activities of $14.2 million combined with a net change in non-cash working capital of $(31.1) million) compared to $72.1 million (cash provided by operating activities of $94.6 million combined with a change in non-cash working capital of $(22.5) million) in the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2018, cash flow used in investing activities of the Company was $(12.8) million as compared to $(42.5) million in the prior year.

Cash Flow from Financing Activities

For the year ended December 31, 2018, cash flow used in financing activities was $(38.9) million as compared to $(38.1) million in 2017.

Credit Facilities and Floor Plan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 29 of the Consolidated Financial Statements for the year ended December 31, 2018.

Key Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants.

The following is a summary of the Company's actual performance against its financial covenants as at December 31, 2018:

Financial Covenant	Requirement	Q4 2018 Calculation
Syndicated Revolver:		
Senior Funded Debt to EBITDA Ratio	Shall not exceed 2.75	1.95
Total Funded Debt to EBITDA Ratio	Shall not exceed 4.50[1]	3.51
Fixed Charge Coverage Ratio	Shall not be less than 1.20	1.84
Current Ratio	Shall not be less than 1.05	1.12

1. *This requirement will be reduced to 4.00 on July 1, 2019*

The covenants above are based on consolidated financial statements of the dealerships that are financed directly by the lender. As a result, the actual performance against the covenant does not necessarily reflect the actual performance of AutoCanada. The Company is required to comply with other covenants under the terms of its remaining credit agreements. The Company stress tests all covenants on a monthly and quarterly basis and notes that a significant further drop in performance would be necessary to breach the covenants.

As at December 31, 2018, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company’s financial instruments, including risks and uncertainties are included in Note 26 of the annual audited consolidated financial statements for the year ended December 31, 2018.

Growth vs. Non-Growth Capital Expenditures

Non-growth capital expenditures are capital expenditures incurred during the period to maintain existing levels of service. These include capital expenditures to replace property and equipment and any costs incurred to enhance the operational life of existing property and equipment. Non-growth capital expenditures can fluctuate from period to period depending on our needs to upgrade or replace existing property and equipment. Over time, we expect to incur annual non-growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period.

Additional details on the components of non-growth property and equipment purchases are as follows:

(in thousands of dollars)	October 1, 2018 to December 31, 2018	January 1, 2018 to December 31, 2018
Leasehold improvements	526	1,883
Machinery and equipment	287	3,886
Furniture and fixtures	223	2,067
Computer equipment	793	2,151
	1,829	9,987

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows, and are expected to provide benefit in future periods.

Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership. During the three month period and the year ended December 31, 2018, growth capital expenditures of $4.9 million and $16.6 million were incurred, respectively. These expenditures related primarily to building construction costs purchased for future dealership operations.

The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of non-growth property and equipment as calculated in the free cash flow section below:

(in thousands of dollars)	October 1, 2018 to December 31, 2018	January 1, 2018 to December 31, 2018
Purchase of property and equipment from the Statement of Cash Flows	6,751	26,574
Less: Amounts related to the expansion of sales and service capacity	(4,922)	(16,587)
Purchase of non-growth property and equipment	1,829	9,987

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period and year ended December 31, 2018, were $1.6 million and $6.6 million (2017 - $1.8 million and 6.9 million), respectively.

Planned Capital Expenditures

Our capital expenditures consist primarily of leasehold improvements, the purchase of furniture and fixtures, machinery and equipment, service vehicles, computer hardware and computer software. Management expects that our annual capital expenditures will increase in the future, as a function of increases in the number of locations requiring maintenance capital expenditures, the cost of opening new locations and increased spending on information systems.

For further information regarding planned capital expenditures, see “ACQUISITIONS, RELOCATIONS AND REAL ESTATE" above.

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2018 and December 31, 2017, as well as unaudited balances of the Company at September 30, 2018, June 30, 2018, March 31, 2018, September 30, 2017, June 30, 2017, and March 31, 2017:

(in thousands of dollars)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Cash and cash equivalents	25,324	41,610	43,483	81,177	94,660	104,966	95,417	100,402
Trade and other receivables	131,152	151,408	153,418	130,388	79,931	137,155	157,275	113,688
Inventories	760,865	795,554	791,243	694,691	659,593	636,685	629,171	701,559
Total Assets	1,720,568	1,773,469	1,839,094	1,670,224	1,761,046	1,693,533	1,698,290	1,707,063
Revolving floorplan facilities	748,353	799,526	789,134	690,163	634,655	616,144	624,847	688,173
Long-term indebtedness	326,998	353,389	413,519	307,152	332,450	331,803	338,212	330,563

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At December 31, 2018, the aggregate of net working capital requirements was approximately $123.6 million. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements.

The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities (refer to Note 29 of the Consolidated Financial Statements for the year ended December 31, 2018 for further information) require the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer and consolidate funds.

Off Balance Sheet Arrangements

The Company has operating lease commitments, with varying terms through 2037, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties and other third parties.

The minimum lease payments over the upcoming fiscal years will be as follows:

2019	35,007
2020	32,698
2021	30,230
2022	28,896
2023	27,881
Thereafter	287,296
Total	442,008

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the Liquidity Risk section of Note 26 of the Company's annual consolidated financial statements.

The increase in future minimum lease payments is a result of the U.S. dealership acquisitions and the sale-leaseback transactions of dealership properties

Related Party Transactions

Transactions with Companies controlled by Directors

During the year there were transactions with companies that are related to directors of the Company. All significant transactions between AutoCanada and companies related to directors were approved by the Company's independent members of the Board of Directors. A summary of those transactions are as follows:

	2018 $	2017 $
Consulting services	135	—
Rent	—	979
Administrative and other support fees	307	428
Loans to associate	—	7,590
	442	8,997

Key management personnel compensation

Key management personnel consists of the Company's executive officers and directors. Key management personnel compensation is as follows:

	2018 $	2017 $
Employee costs (including Directors)	12,508	7,606
Short-term employee benefits	165	222
Share-based compensation	741	1,079
	13,414	8,907

Note 36 of the annual consolidated financial statements of the Company for the year ended December 31, 2018 summarizes the transactions between the Company and its related parties.

11. OUTSTANDING SHARES

As at December 31, 2018, the Company had 27,459,683common shares outstanding. Basic and diluted weighted average number of shares outstanding for the year ended December 31, 2018, were 27,399,117 and 28,297,901, respectively. Weighted average number of shares - Diluted differs from the disclosed amounts on theDecember 31, 2018 Consolidated Statements of Comprehensive (Loss) Income due to an anti-dilutive impact in the year.

As at December 31, 2018, the book value of the shares held in trust was $1.1 million (2017 – $1.8 million), which was comprised of 42,621 (2017 - 70,783) in shares. As at March 14, 2019, there were 27,459,683 shares issued and outstanding.

12. DIVIDENDS

Management reviews the Company's financial results on a monthly basis. The Board of Directors reviews the financial results periodically to determine whether a dividend shall be paid based on a number of factors.

The following table summarizes the dividends declared by the Company in 2018:

Record date	Payment date	Per Share $	Total $
March 1, 2018	March 15, 2018	0.10	2,739
May 31, 2018	June 15, 2018	0.10	2,739
August 31, 2018	September 15, 2018	0.10	2,739
November 30, 2018	December 15, 2018	0.10	2,739
		0.40	10,956

On February 22, 2019, the Board of Directors of the Company declared a quarterly eligible dividend of $0.10 per common share on the Company's outstanding Class A common shares, payable on March 15, 2019 to shareholders of record at the close of business on March 1, 2019.

As per the terms of the Scotiabank facility, we are restricted from declaring dividends and distributing cash if we are in breach of financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is within its covenants.

13. FREE CASH FLOW

The Company has defined free cash flow to be cash flows provided by operating activities (including changes in non-cash operating working capital) less capital expenditures (excluding capital assets acquired by acquisitions or purchases of real estate).

(in thousands of dollars, except unit and per unit amounts)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Cash provided by operating activities [1]	(5,829)	9,389	(9,187)	(13,106)	31,479	32,091	12,255	2,967
Deduct:								
Purchase of non-growth property and equipment	(1,829)	(2,396)	(4,564)	(1,282)	(1,983)	(977)	(1,273)	(2,346)
Free cash flow[2]	(7,658)	6,993	(13,751)	(14,388)	29,496	31,114	10,982	621
Weighted average shares outstanding at end of period	27,417,434	27,399,238	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766
Free cash flow per share	(0.28)	0.26	(0.50)	(0.53)	1.08	1.14	0.40	0.02
Free cash flow - 12 month trailing	(28,805)	8,350	32,471	57,204	72,213	66,141	65,924	92,864

1 *In Q4 2018, the Company recorded adjustments related to the fair value of certain assets acquired and liabilities assumed as part of the Grossinger Auto Group acquisition. The results as disclosed for Q2 2018 and Q3 2018 have been restated as if the fair value changes to net identifiable assets had been completed as of the acquisition date. Refer to Note 16 of the annual consolidated financial statements for the year ended December 31, 2018.*

2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*

Management believes that the free cash flow (see "NON-GAAP MEASURES") can fluctuate significantly as a result of historical fluctuations in our business operations that occur on a quarterly basis as well as the resulting fluctuations in our trade receivables and inventory levels and the timing of the payments of trade payables and revolving floorplan facilities.

Changes in non-cash working capital consist of fluctuations in the balances of trade and other receivables, inventories, finance lease receivables, other current assets, trade and other payables, vehicle repurchase obligations and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur.

The following table summarizes the net decrease in cash due to changes in non-cash working capital for the years ended December 31, 2018 and December 31, 2017:

(in thousands of dollars)	January 1, 2018 to December 31, 2018	January 1, 2017 to December 31, 2017
Trade and other receivables	(42,448)	(10,176)
Inventories	3,236	(104,383)
Finance lease receivables	3,566	1,978
Current tax recoverable/payable	(22,830)	—
Other current assets	(2,269)	2,418
Trade and other payables	23,583	(18,496)
Other liabilities	1,359	—
Vehicle repurchase obligations	3,545	113,102
Revolving floorplan facilities	1,143	(283)
	(31,115)	(15,840)

Adjusted Free Cash Flow

The Company has defined adjusted free cash flow to be cash flows provided by operating activities (before changes in non-cash operating working capital) less non-growth capital expenditures.

(in thousands of dollars, except unit and per unit amounts)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Cash provided by operating activities before changes in non-cash working capital[1]	12,382	1,431	889	4,942	17,486	24,070	37,355	15,721
Deduct:								
Purchase of non-growth property and equipment	(1,829)	(2,396)	(4,541)	(1,221)	(1,490)	(774)	(1,078)	(504)
Adjusted free cash flow[2]	10,553	(965)	(3,652)	3,721	15,996	23,296	36,277	15,217
Weighted average shares outstanding at end of period	27,417,434	27,399,238	27,390,620	27,388,859	27,389,167	27,389,473	27,378,919	27,358,766
Adjusted free cash flow per share	0.38	(0.04)	(0.13)	0.14	0.58	0.85	1.32	0.56
Adjusted free cash flow - 12 month trailing	9,657	15,100	39,361	79,290	90,786	87,923	92,393	77,748

1 *In Q4 2018, the Company recorded adjustments related to the fair value of certain assets acquired and liabilities assumed as part of the Grossinger Auto Group acquisition. The results as disclosed for Q2 2018 and Q3 2018 have been restated as if the fair value changes to net identifiable assets had been completed as of the acquisition date. Refer to Note 16 of the annual consolidated financial statements for the year ended December 31, 2018.*

2 *These financial measures have been calculated as described under "NON-GAAP MEASURES".*

Management believes that non-growth property and equipment is necessary to maintain the current productive capacity of the Company's operations and cash available for growth. Management also believes that maintenance capital expenditures should be funded by cash flow provided by operating activities. Capital spending for the expansion of sales and service capacity is expected to improve future free cash and as such is not deducted from cash flow provided by operating activities before changes in non-cash working capital in arriving at adjusted free cash flow.

Adjusted free cash flow is a measure used by Management in forecasting and determining the Company's available resources for future capital expenditure, repayment of debt, funding the future growth of the Company and dividends to Shareholders.

In the year ending December 31, 2018, the Company paid approximately $2.8 million in 2018 tax installments (2017 - $9.9 million in income tax installments). Accordingly, this reduced our adjusted free cash flow by this amount. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

The Company has defined Adjusted Return on Capital Employed to be EBIT (EBITDA, as defined in "NON-GAAP MEASURES", less depreciation and amortization) divided by Average Capital Employed in the Company (average of shareholders' equity and interest bearing debt, excluding floorplan financing, for the period, less the comparative adjustment defined below). Calculations below represent the results on a quarterly basis, except for the adjusted return on capital employed – 12 month trailing which incorporates the results based on the trailing 12 months for the periods presented.

(in thousands of dollars, except unit and per unit amounts)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
EBITDA[1,2]	(14,439)	13,205	11,694	16,253	31,124	29,978	47,757	17,228
Deduct:								
Depreciation of property and equipment	(4,463)	(5,794)	(4,647)	(5,042)	(5,213)	(5,297)	(5,082)	(4,852)
EBIT[1,2]	(18,902)	7,411	7,047	11,211	25,911	24,681	42,675	12,376
Average long-term debt	342,102	386,390	363,433	322,377	339,741	353,315	357,103	351,986
Average shareholder's equity	460,854	484,930	512,193	534,379	534,338	526,209	510,610	498,732
Average capital employed[1]	802,956	871,321	875,626	856,756	874,079	879,524	867,713	850,718
Return on capital	(2.4)%	0.9%	0.8%	1.3%	3.0%	2.8%	4.9%	1.5%
Comparative adjustment[3]	55,597	42,358	43,332	24,371	24,371	25,959	25,959	25,959
Adjusted average capital employed[1]	851,933	914,166	909,477	881,126	899,244	905,482	893,672	876,677
Adjusted return on capital employed[1]	(2.2)%	0.8%	0.8%	1.3%	2.9%	2.7%	4.8%	1.4%
Adjusted return on capital employed - 12 month trailing	0.8 %	5.7%	7.6%	11.9%	12.2%	12.1%	11.8%	9.9%

1 *These financial measures are identified and defined under the section "NON-GAAP MEASURES".*
2 *EBITDA and EBIT used in the calculation of Adjusted Return on Capital Employed are calculated using the financial results including non-controlling interests.*
3 *A comparative adjustment has been made in order to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, management has provided an adjustment in order to freeze intangible assets at the pre-IFRS amount of $43,700. As a result, all differences from January 1, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed.*

Management believes that Adjusted Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment is expected to create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments.

14. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Notes 3, 6, and 7 of the annual consolidated financial statements for the year ended December 31, 2018.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the year ended December 31, 2018. A listing of the standards issued which are applicable to the Company can be found in Note 5 of the annual consolidated financial statements for the year ended December 31, 2018.

The Company adopted IFRS 9, Financial Instruments, and IFRS 15, Revenue from contracts with customers, effective for the interim and annual consolidated financial statements commencing January 1, 2018. The amendment standards do not have a material impact on the financial statements and are further explained in Note 4 of the annual consolidated financial statements for the year ended December 31, 2018.

15. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls & Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed with securities regulatory authorities is recorded, processed, summarized, and reported on a timely basis, and is accumulated and communicated to the Company's management, including the Executive Chairman ("Chairman") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2018, the Company's management, with participation of the Chairman and CFO, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in National Instrument 52–109 of the Canadian Securities Administrators, and have concluded that the Company's disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Company's management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management, under the supervision of and with the participation of the Company's Chairman and CFO, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under national Instrument 52–109 Certification of Disclosure in Issuers' Annual and Interim Filings). In making this evaluation, management used the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commissions* ("COSO") in *Internal Control – Integrated Framework (2013).* Based on that evaluation, management and the Chairman and CFO have concluded that, as at December 31, 2018, the Corporation's internal controls over financial reporting were effective. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2018, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonable likely to materially affect, such controls.

16. RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2018 Annual Information Form dated March 14, 2019 available on the SEDAR website at www.sedar.com.

17. FORWARD-LOOKING STATEMENTS

Certain statements contained in the MD&A are forward-looking statements and information (collectively "forward-looking statements", including "with respect to", "among other things", "future performance", "expense reductions" and the "Go Forward Plan"), within the meaning of the applicable Canadian securities legislation. We hereby provide cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "projection", "vision", "goals", "objective", "target", "schedules", "outlook", "anticipate", "expect", "estimate", "could", "should", "plan", "seek", "may", "intend", "likely", "will", "believe", "shall" and similar expressions) are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict.

Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Therefore, any such forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

Details of the Company's material forward-looking statements are included in the Company's most recent Annual Information Form. The Company's most recent Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for Management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

18. NON-GAAP MEASURES

Our MD&A contains certain financial measures that do not have any standardized meaning prescribed by Canadian GAAP. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned these measures should not be construed as an alternative to net earnings (loss) or to cash provided by (used in) operating, investing, and financing activities determined in accordance with Canadian GAAP, as indicators of our performance. We provide these measures to assist investors in determining our ability to generate earnings and cash provided by (used in) operating activities and to provide additional information on how these cash resources are used. We list and define these "NON-GAAP MEASURES" below:

Operating (Loss) Profit

Operating profit is a measure commonly reported and widely used by investors as an indicator of a company's operating performance. The Company believes Operating profit assists investors in analyzing a company's performance before the costs of debt and other financing, also excluding other gains or losses and income taxes. References to "Operating profit" are to earnings before interest expense interest income, other gains or losses and income taxes.

EBITDA

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization and asset impairment charges which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and asset impairment charges. EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted EBITDA

Adjusted EBITDA is an indicator of a company's operating performance and ability to incur and service debt. The portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs, the revaluation of redemption liabilities, the revaluation of contingent considerations, the unrealized gain or loss on embedded derivatives, management transition costs, allowances and writedowns associated with the winding down of operations, provision for wholesale fraud and settlement income are added back to EBITDA to get to adjusted EBITDA. The Company believes adjusted EBITDA provides improved continuity with respect to the comparison of our operating results over a period of time. Adjusted EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted Net Earnings, Adjusted Net Earnings Per Share and Adjusted Diluted Net Earnings Per Share

Adjusted net earnings, adjusted net earnings per share, and adjusted diluted net earnings per share are measures of our profitability. Adjusted net earnings is calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets, impairments of goodwill, impairment of other assets, the revaluation of redemption liabilities, the revaluation of contingent considerations, the unrealized gain or loss on embedded derivatives, management transition costs, allowances and writedowns associated with the winding down of operations, provision for wholesale losses, settlement income and the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs. The Company considers this expense to be non-cash in nature. Adding back these amounts to net earnings allows Management to assess the net earnings of the Company from ongoing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding. Adjusted diluted net earnings per share is calculated by dividing adjusted net earnings by the diluted weighted-average number of shares outstanding.

EBIT

EBIT is a measure used by Management in the calculation of Return on capital employed (defined below). Management's calculation of EBIT is EBITDA (calculated above) less depreciation and amortization.

Free Cash Flow

Free cash flow is a measure used by Management to evaluate its performance. While the closest Canadian GAAP measure is cash provided by operating activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that free cash flow may not actually be available for growth or distribution of the Company. References to "Free cash flow" are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditure (not including acquisitions of dealerships and dealership facilities).

Adjusted Free Cash Flow

Adjusted free cash flow is a measure used by Management to evaluate its performance. Adjusted free cash flow is considered relevant because it provides an indication of how much cash generated by operations before changes in non-cash working capital is available after deducting expenditures for non-growth capital assets. It shall be noted that although we consider this measure to be adjusted free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that adjusted free cash flow may not actually be available for growth or distribution of the Company. References to “Adjusted free cash flow” are to cash provided by (used in) operating activities (before changes in non-cash working capital balances) less non-growth capital expenditures.

Absorption Rate

Absorption rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the parts, service and collision repair operations of a franchised automobile dealership. Absorption rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry. References to "absorption rate" are to the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership, but does not include expenses pertaining to our head office. For this purpose, fixed operating costs include fixed salaries and benefits, administration costs, occupancy costs, insurance expense, utilities expense and interest expense (other than interest expense relating to floor plan financing) of the dealerships only.

Average Capital Employed

Average capital employed is a measure used by Management to determine the amount of capital invested in AutoCanada and is used in the measure of Return on Capital Employed (described below). Average capital employed is calculated as the average balance of interest bearing debt for the period (including current portion of long-term debt, excluding revolving floorplan facilities) and the average balance of shareholders equity for the period. Management does not include future income tax, non-interest bearing debt, or revolving floorplan facilities in the calculation of average capital employed as it does not consider these items to be capital, but rather debt incurred to finance the operating activities of the Company.

Adjusted Average Capital Employed

Adjusted average capital employed is a measure used by Management to determine the amount of capital invested in AutoCanada and is used in the measure of Adjusted Return on Capital Employed (described below). Adjusted average capital employed is calculated as the average balance of interest bearing debt for the period (including current portion of long-term debt, excluding revolving floorplan facilities) and the average balance of shareholders equity for the period, adjusted for impairments of intangible assets, net of deferred tax. Management does not include future income tax, non-interest bearing debt, or revolving floorplan facilities in the calculation of adjusted average capital employed as it does not consider these items to be capital, but rather debt incurred to finance the operating activities of the Company.

Return on Capital Employed

Return on capital employed is a measure used by Management to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Return on capital employed is calculated as EBIT (defined above) divided by Average Capital Employed (defined above).

Adjusted Return on Capital Employed

Adjusted return on capital employed is a measure used by Management to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole in order to ensure shareholder value is being achieved by these capital investments. Adjusted return on capital employed is calculated as EBIT (defined above) divided by Adjusted Average Capital Employed (defined above).

Cautionary Note Regarding Non-GAAP Measures

Operating Profit, EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that these non-GAAP measures should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Company’s performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The

Company’s methods of calculating Operating profit, EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed. Adjusted Average Capital Employed and Adjusted Return on Capital Employed may differ from the methods used by other issuers. Therefore, the Company’s EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed may not be comparable to similar measures presented by other issuers.

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